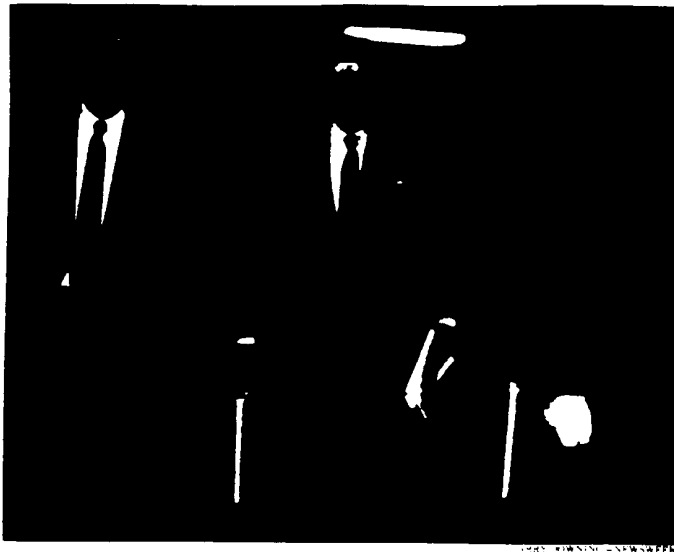


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The man who kept the secrets: Casey, center, leaves House hearing last week

Casey's Secrets

Was it possible that the CIA director was as poorly informed as he claims about the Iran connection?

It was a measure of their rising doubts about the whole Iranian adventure that Reagan administration officials brought Manucher Ghorbanifar to Washington for a closer look. Ghorbanifar—goateed, a little portly and a very smooth talker—was a former official in Savak, the shah's infamous secret police, who had somehow succeeded in establishing a connection to the leaders of postrevolutionary Iran from his comfortable exile in France. He was the head of Iran's intelligence and arms-buying operations in Europe, he worked directly for Iran's prime minister—and from the beginning, he was the primary link between Washington and Teheran. But key U.S. officials were skeptical of Ghorbanifar's bona fides—and after he was brought to Washington in December 1985 he was interviewed and polygraphed about Iranian politics. According to NEWSWEEK's sources, he flunked his lie-detector test.

Incredibly enough, these sources say, a top administration official shrugged off the disappointing polygraph results and continued to push for further arms sales to Iran. That official was CIA Director

William P. Casey, the wily, 73-year-old veteran of Gen. (Wild Bill) Donovan's OSS who later worked in the Nixon administration and managed Ronald Reagan's 1980 campaign for the presidency. Casey, whose mumbling obfuscations in the face of unwelcome questions is all but legendary on Capitol Hill, has been grilled repeatedly in recent weeks by House and Senate investigators, but he has yet to concede any real knowledge of the Iran-Nicaragua affair. The CIA, he says, did not break the law. The operation was run by the National Security Council, he has told the investigators, most of all by Lt. Col. Oliver North. And Casey insists he never knew the Iranian arms deal's profits were being diverted to the contras until an old friend called to complain in October 1986.

All that is probably what is known in covert operations as "plausible denial"—for there is virtually no one in Washington these days who believes that Casey was as poorly informed as he says. For one thing, Casey's own CIA subordinates have reportedly given congressional investigators details of the Iran-Nicaragua connection and

its secret flow of cash. For another, Secretary of State George Shultz last week told the House Foreign Affairs Committee he was "shocked" to discover that U.S. diplomats in the Middle East had been enlisted in a secret network by the NSC—and that their communications to and from Washington flowed through the CIA's top-secret "privacy channel," which is monitored by Casey himself. Shultz also said he was cut off from the flow of intelligence intercepts by the National Security Agency that might have revealed the contra connection. And finally, it is widely agreed by knowledgeable officials that Casey led the successful effort to persuade Ronald Reagan to press ahead with the much-debated Iranian initiative in January 1986—at a point when Shultz, Secretary of Defense Caspar Weinberger and many in the CIA itself were firmly convinced that its risks far outweighed any possible gain.

Wider effort: Taken as a whole, the pattern suggests something like a government within the government, operating in secret to achieve the goals of Ronald Reagan's worldwide crusade against communism. In this context, the Iran arms deal and the contra support operation are only the most conspicuous parts of a much wider effort that included the CIA-backed guerrilla struggle against Soviet troops in Afghanistan, the UNITA rebellion in Angola and the administration's war against terrorism. Casey, who along with other administration officials has reportedly solicited hundreds of millions of dollars from friendly foreign governments to support the "Reagan doctrine fund," was a key player in this effort—but he was not alone.

NEWSWEEK has now learned of the existence of a small group of active military officers operating under the aegis of the National Security Council—a group whose mission, though shrouded in secrecy, seems to have been to direct covert actions too sensitive even for the CIA. This team, known according to one source as the "policy development group," included Oliver North and at least three other NSC staffers, CIA veteran Vincent Canistraro, Navy Capt. James Stark and, until his death from cancer last summer, Deputy NSC Director Donald Fortier. NEWSWEEK's sources say the group's members ran specific covert operations by order of the president—and unlike CIA officials they were technically exempt from the legal requirement to report those operations to the House and Senate intelligence committees. The Iran-Nicaragua affair, these sources say, resulted from the fusion of North's two main areas of responsibility as an NSC staffer, counterterrorism and Central America. And because the policy development group included no one but NSC staffers, North was essentially free to dream up his own operations

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and get them approved by higher-ups.

The National Security Council has coordinated covert operations for years, but not until recently did it take an operational role. Reagan's NSC, sources say, has gone well beyond the practices of the past by assigning NSC staffers like North to run specific operations. The shift was sanctioned in two secret presidential directives. One, NSDD-138, approved covert action to deter, pre-empt or retaliate against terrorists or win the release of hostages. The other, Executive Order 12333, confirmed the CIA's traditional responsibility for covert ops except on special instructions from the president—a loophole which subsequently became the legal "charter" for swashbucklers like North. EO 12333 led to the creation of what one *Newsweek* source called "a parallel structure" to the established NSC apparatus for supervising covert operations by the CIA or other intelligence agencies. It allowed North and others to act as case officers who were directly involved in front-line action, rather than restricting them to the NSC staff's traditional role as sober analysts guarding the president's best interests. The line between oversight and action, in short, was fatally blurred.

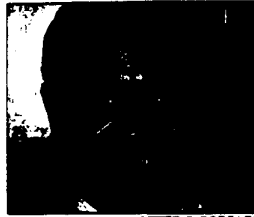
Just what North's colleagues on the NSC staff were doing remains a mystery—and it is only one of the many enigmas surrounding the Iran-Nicaragua affair and the Reagan administration's secret foreign policy. The broad outline of the Iranian arms deal, meanwhile, is becoming clearer. It involved more than 2,000 U.S.-made TOW antitank missiles, as many as 235 Hawk anti-aircraft missiles and an unknown quantity of spare parts for U.S.-built aircraft, all of which were transferred to Iran between September 1985 and November 1986. It was continuously debated at the highest levels of the Reagan administration and seems to have been based on several goals: winning the release of U.S. hostages held by Shiite terrorists in Beirut, generally improving relations with Iran and helping to finance the contra insurgency in Nicaragua. But crucial details remain unknown—and last week the ongoing investigation focused on these areas:

■ **The middlemen:** Saudi billionaire Adnan Khashoggi says he was approached by Manucher Ghorbanifar in July 1985 with the idea of bankrolling an arms deal between the United States and Iran. According to U.S. investigators, Khashoggi in turn enlisted three Canadians and four Americans as partners, and the consortium reportedly provided millions of dollars in front money to facilitate the transfer of U.S. weaponry to Teheran. But *Newsweek* sources say the Iranians apparently withheld \$10 million in a dispute over the quality of the weapons—and Khashoggi's syndicate was left holding the bag.

Last week Casey reportedly told congress-

Following the Money: A Who's Who

The money trail in the Iran scandal is a complicated and confusing one that led through several countries and involved shawdowy figures and deals at each step of the way. Herewith the cast of characters who played roles in funding the Reagan administration's secret foreign policy:



PETER C. BORSARI



COURTESY ABC NEWS



WALLY McNAMEE—NEWSWEEK



ARTHUR GRACE—NEWSWEEK



AFP

Adnan Khashoggi: financier

The Saudi billionaire met Manucher Ghorbanifar, a senior Iranian intelligence officer in Europe, and agreed to arrange the financing of a deal to ship arms to Iran in exchange for American hostages and closer ties between the United States and Iranian moderates. Later Khashoggi recruited investors to put up \$15 to \$20 million to help finance the deal.

Manucher Ghorbanifar: dealer

Ghorbanifar served as an intermediary between Khashoggi, the United States, Israel and moderates in Iran. Though suspicious of Ghorbanifar, the United States went along anyway. His job was to pay Israel, later the United States, for the American weapons with money from Khashoggi. He then reimbursed Khashoggi with cash, presumably from the Iranians.

Roy Furmark: messenger

Three Canadian and four American investors recruited by Khashoggi lost \$10 million when the Iranians refused to pay for an arms shipment. Furmark warned his old friend, CIA Director William Casey, that if the investors didn't get back their money they'd publicize details of the scam, including the diversion of funds to the contras.

Richard V. Secord: banker

Retired Maj. Gen. Richard V. Secord, Lt. Col. Oliver North and Secord's Iranian business partner controlled two Swiss bank accounts through which the Iran arms profits were funneled. Investigators have tracked \$12.5 million to the CIA, \$10 million to buy weapons, \$2 million to \$3 million for the contra resupply operation, and \$5 million to middlemen.

Jacob Nimrodi: middleman

Jacob Nimrodi, a former Israeli military attache in Teheran; Al Schwimmer, the founder of Israel Aircraft Industries, and David Kimche, an Israeli Foreign Ministry official, handled the deal from Israel's end. Initially they insisted that the Iranians exchange the American hostages, not money, for the arms shipments. Later Israel was cut out of the deal.

The CIA: facilitator

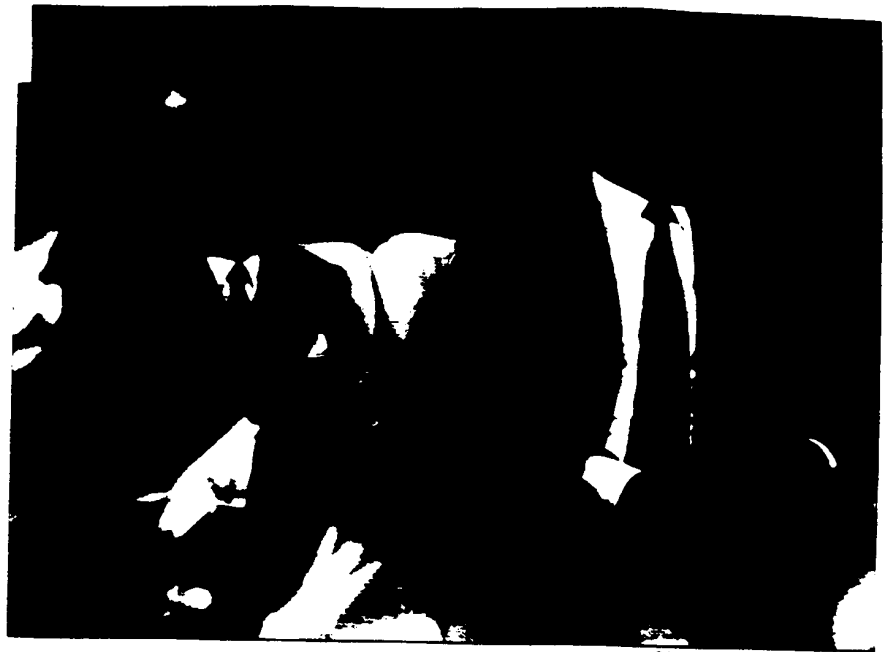
Casey acknowledged that the agency received \$12.5 million for the Iranian arms but denied knowing anything about the rest of the \$35 million. He said Furmark was the first to mention funds diverted to the contras. After he discussed the investors' problems with the national-security chief, he was told that the affair had to be kept secret.



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sional investigators that he was approached on Oct. 7 by New York businessman Roy Furmark on their behalf. Furmark said the syndicate had put up between \$15 million and \$20 million to finance the arms sales, and warned that its members were threatening to "blow the lid off the whole deal" by filing suit to recover the missing millions. Casey reportedly proposed yet another deal that would enable the syndicate to recoup its losses. He also called then national-security adviser John Poindexter, North's boss, and asked him about the contra connection. Poindexter, Casey said, asked him to keep quiet about the affair because "we still have more hostages to get out."

■ **The money:** By Ghorbanifar's account, the Iranian arms deal totaled no more than \$35 million—but the figure does not jibe with U.S. officials' estimates of what the weapons were worth. The TOW missiles alone, according to *NEWSWEEK* sources, should have cost the Iranians nearly \$20 million—and Hawk missiles are usually priced at \$250,000 apiece, for a total of nearly \$60 million more. The bottom line, apparently, is that Iran got U.S. weapons at fire-sale prices. Congressional sources say, meanwhile, that the CIA has provided an accounting of how the money was spent.



The go-betweens: Saudi financier Khashoggi, left, and Iranian negotiator Ghorbanifar

The Department of Defense got \$12.5 million for the weapons, and about \$10 million was spent on weapons for the contras. About \$3 million was spent on the covert contra airlift operation based in El Salvador, and about \$5 million went to various middlemen.

■ **The Swiss bank accounts:** Casey has told congressional investigators that North asked for and got access to a CIA Swiss bank account large enough to handle some \$30 million—although he claimed the CIA actually monitored deposits into its ledgers of only \$12.5 million. Casey said those deposits

Palms Out to the Sultan of Brunei

To the dimly lit bar at the Sheraton Utama hotel in Brunei come the would-be wheeler-dealers of the world. British jewel merchants bearing briefcases stuffed with

precious gems; polo-playing Filipino entrepreneurs; American oilmen in cowboy boots; minor European nobility—they all are waiting around for the same thing: an audience with Sultan Muda Hassanal Bolkiah Muizzaddin Waddaulah, perhaps the richest man in the world.

Last June U.S. Secretary of State George Shultz dropped by the tiny (population: 225,000) oil-rich sultanate on the island of Borneo, 600 miles southeast of Vietnam. Shultz, of course, didn't have to hang out at the Sheraton; he was given a VIP tour of the sultan's 1,788-room, \$400 million marble-and-mahogany palace, with its gold-plated bathrooms sinks and 2,000 phones. Shortly after the visit, several million dollars of aid for the Nicaraguan contras was reportedly transferred from Brunei to a Swiss bank account run by Oliver North. Though the State

Department won't confirm that Shultz himself lobbied the sultan for the money, a spokesman said that any such request had his approval.

Why would the sultan of a land roughly the size of Delaware want to send millions to rebels half a world away? The monarch is known to be virulently anticommunist, ever since his late father's reign was challenged by a leftist-influenced uprising in 1962 (thought to have been instigated by Indonesia, the insurgency was quashed by British troops). Or it could have something to do with the sultan's love of things military. An Anglophile like his father (who erected a statue of Winston Churchill in the capital), the sultan attended a British military academy and flies his own 727 jet and helicopter. When Brunei troops conduct war exercises, the sultan likes to personally launch an Exocet missile or two.

Meanwhile, the contras say they never got the money, and the sultan is said to be embarrassed by the publicity. But at least he isn't worrying about a congressional investigation. Speaking of democracy, the monarch once said: "We tried it, and it didn't work."



Deep pockets: The sultan



Anglophilia: Brunei statuary

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came from two mysterious corporations, Lake Resources Inc. and the Hyde Park Square Corp. Swiss authorities, meanwhile, have announced that the U.S. Justice Department asked them to freeze two bank accounts. According to news reports, one account was under North's exclusive control, while the other was jointly controlled by North, General Secord and Albert Hakim, an Iranian-born business associate of Secord's. But the Justice Department failed to specify a crime that would enable Swiss officials to act, and both accounts remain unfrozen. A Justice Department spokesman said the issue would be resolved shortly but offered no explanation for the lapse.

■ **The contra connection:** Who made the decision to divert the Iranian arms payments to the contra cause, and when was that decision made? Former national-security adviser Robert McFarlane says he learned of the contra connection from North during his mission to Iran in May 1986. "I was advised in a very summary fashion that the U.S. government had applied certain Iranian funds to Central American programs," McFarlane told congressional investigators. "In the context of how it was portrayed to me, I took it to have been a matter of established, approved policy sanctioned by higher authority." McFarlane says he did not ask who those higher officials might be—but he suggested that such a decision would normally have involved the presi-

dent himself. Whatever the truth may be, other sources say Casey was the prime mover in persuading Ronald Reagan to sign a national-intelligence "finding" that allowed the Iranian operation to proceed without notifying Congress.

What troubles even sympathetic observers about the Iran-Nicaragua affair is that Reagan and his men made two fundamental miscalculations. One is that they naively assumed that any such operation could remain secret for long—and that they neglected, as Shultz says, to ask themselves how they would defend it when it all came out. The other miscalculation is deeper: it involves the hubris of power. "The use of total secrecy in an operation may be acceptable, but only on the presumption that the president is not acting against what the public perceives to be its own interest," says former CIA Director James Schlesinger. "The thing that troubles people about this operation is that it is quite inconsistent with everything the administration had been doing all along with the Iranians, and it was a total reversal of everything the American people felt." That is why Congress is likely to pursue its investigation to the bitter end—and why, when the nagging questions are answered, Casey and his White House allies may pay a heavy price.

TOM MORGENTHAU with KIM WILLENSON,
JOHN BARRY and RICHARD SANDZA
in Washington

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